

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 1283 - SB 1311**

February 26, 2015

**SUMMARY OF BILL:** Establishes that the Hall Income Tax (HIT) does not apply to the first \$33,000 of income otherwise taxable for single filers 65 years of age or older, or to the first \$59,000 of income for joint filers 65 years of age or older, for tax years beginning in 2015.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact – \$29,085,100**

**Decrease Local Revenue – Net Impact – \$15,803,300**

**Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by the passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary impacts cannot be quantified with reasonable certainty.**

**Assumptions:**

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock or from interest on bonds.
- Given the tax changes shall be applied to tax years beginning with tax year 2015, and assuming that 100 percent of HIT owed for tax year 2015 is collected no later than June 30, 2016, the first year impacted by this bill will be FY15-16. This collection pattern is assumed to remain constant into perpetuity.
- The current Fiscal Review Committee estimate for HIT collections in FY15-16 is \$270,000,000. This number is assumed to remain constant in subsequent years under current law.
- Based on analysis of HIT returns in the Department of Revenue's data warehouse, it is estimated that the proposed changes to the initial exemption levels will result in a recurring decrease in HIT revenue of \$47,126,942. The Fiscal Review Committee staff does not have access to the data and information upon which these calculations are based and cannot independently verify their accuracy.
- Based on the apportionments of HIT collections for the last three fiscal years (FY11-12, FY12-13, and FY13-14), it is estimated that the state retains 65.09 percent of HIT revenue and local governments are apportioned 34.91 percent.

- The recurring decrease in HIT revenue for the state is estimated to be \$30,674,927 ( $\$47,126,942 \times 65.09\%$ ); the recurring decrease in HIT revenue for the local government is estimated to be \$16,452,015 ( $\$47,126,942 \times 34.91\%$ ).
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring increase in state sales tax revenue is estimated to be: \$1,589,783 [ $(\$47,126,942 \times 50.0\% \times 7.0\%) - (\$47,126,942 \times 50.0\% \times 7.0\% \times 3.617\%)$ ].
- The total recurring increase in local sales tax revenue is estimated to be: \$648,747 [ $(\$47,126,942 \times 50.0\% \times 2.5\%) + (\$47,126,942 \times 50.0\% \times 7.0\% \times 3.617\%)$ ].
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$29,085,144 ( $\$30,674,927 - \$1,589,783$ ).
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$15,803,268 ( $\$16,452,015 - \$648,747$ ).
- There could be subsequent increases in state and local government revenue and expenditures due to the secondary economic impacts prompted by the passage of this bill. Increases in revenue may occur if the state's population increases as a result of reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increases as a result of population increases. Due to multiple unknown factors, such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary impacts cannot be quantified with reasonable certainty.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Jeffrey L. Spalding, Executive Director

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